



July 2, 2018

Hon. Shantel Krebs
Secretary of State
500 E. Capitol Avenue
Pierre, SD 57501

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S.D. SEC. OF STATE

Dear Secretary Krebs,

This office received an initiated measure to increase cigarette and tobacco taxes and create a postsecondary technical institute fund. The methodology used for this fiscal note relies on past cigarette and tobacco tax increases in South Dakota, and other studies involving meta-analysis. Our analysis found that for each 10% increase in the cigarette tax since 1980, South Dakota's average consumption of cigarettes declined by 2.5%. This conclusion is validated by national studies, which suggest a range of 2-6% reduction in smoking for each 10% increase in price. The previous increase in the tobacco tax did not produce a reduction in demand.

This information forms the basis of the attached fiscal note. The initiated measure requires a fiscal note because it was determined that it may have an impact on revenues, expenditures, or fiscal liability of the state or its agencies and subdivisions. SDCL 2-9-31 requires that said fiscal note be no longer than fifty "words." Therefore, numbers and percentages do not count against the fifty-word limit.

Enclosed is a copy of the initiated measure, in final form, that was submitted to this office. In accordance with SDCL 2-9-31, I hereby submit the Legislative Research Council's fiscal note with respect to this initiated measure.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason Hancock". The signature is fluid and cursive, with a large initial "J" and "H".

Jason Hancock
Director

Enclosures

CC: Mark Mickelson

SOUTH DAKOTA LEGISLATIVE RESEARCH COUNCIL

FISCAL NOTE

INITIATED MEASURE

AN INITIATED MEASURE INCREASING THE STATE TOBACCO TAX AND CREATING A POSTSECONDARY TECHNICAL INSTITUTE FUND FOR THE PURPOSES OF LOWERING STUDENT TUITION AND PROVIDING FINANCIAL SUPPORT TO THE STATE POSTSECONDARY TECHNICAL INSTITUTES.

Based on previous cigarette tax increases, a 65.4% increase in price should produce a smoking reduction of 16.4%. Based on the previous tobacco tax increase, this tobacco tax increase is unlikely to affect demand.

		General	Tobacco Trust	Technical Institute	Total
Current FY2020	Cigarette	44,113,000	5,000,000	-	49,113,000
	Tobacco	9,868,430	-	-	9,868,430
	Total	53,981,430	5,000,000	-	58,981,430

Proposed FY2020	Cigarette	45,903,000	5,000,000	18,500,000	69,403,000
	Tobacco	13,020,972	-	1,500,000	14,520,972
	Total	58,923,972	5,000,000	20,000,000	83,923,972

Difference	Cigarette	1,790,000	-	18,500,000	20,290,000
	Tobacco	3,152,542	-	1,500,000	4,652,542
	Total	4,942,542	-	20,000,000	24,942,542

Approved:  Date: 7/2/18
Director, Legislative Research Council

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BE IT ENACTED BY THE PEOPLE OF SOUTH DAKOTA:

An Act to increase the tax on cigarettes and other tobacco products and to appropriate the revenues for the purposes of lowering student tuition at and providing funding to support the state's four post-secondary technical institutes.

10-50-3. A tax is imposed, whether or not a sale occurs, at the following rates on all cigarettes held in this state for sale by any person:

Class A, on cigarettes weighing not more than three pounds per thousand, ~~seventy-six~~ one hundred twenty-six and one-half mills on each cigarette.

Class B, on cigarettes weighing more than three pounds per thousand, ~~seventy-six~~ one hundred twenty-six and one-half mills on each cigarette.

Section 2. That § 10-50-52 be amended to read:

10-50-52. The first thirty million dollars in revenue collected annually pursuant to this chapter shall be deposited in the general fund. The next five million dollars in excess of thirty million dollars collected annually shall be deposited in the tobacco prevention and reduction trust fund and shall be used to implement the tobacco prevention and reduction program. The next twenty million dollars in excess of thirty-five million dollars collected annually shall be deposited in the postsecondary technical institute tuition reduction and workforce training fund created in section 4 of this Act. All revenue collected pursuant to this chapter in excess of ~~thirty-five~~ fifty-five million dollars shall be deposited in the general fund.

Section 3. That § 10-50-61 be amended to read:

10-50-61. In addition to the tax imposed by § 10-50-3, there is imposed, whether or not a sale occurs, a tax upon all tobacco products in this state and upon any person engaged in business as a licensed distributor or licensed wholesaler thereof, at the rate of ~~thirty-five~~ fifty-five percent of the wholesale purchase price of such tobacco products. Such tax shall be imposed at the time the distributor or wholesaler brings or causes to be brought into this state

tobacco products for sale; makes, manufactures, or fabricates tobacco products in this state for sale in this state; or ships or transports tobacco products to dealers in this state to be sold by those dealers. For the purposes of this chapter, wholesale purchase price is the price for which a manufacturer sells tobacco products to a licensed distributor or licensed wholesaler exclusive of any discount or other reduction.

Any licensed distributor or licensed wholesaler who has paid tax pursuant to this section and subsequently sells the tobacco products to another licensed distributor or licensed wholesaler for resale, or sells the tobacco products outside of this state, shall receive a credit for the tax paid pursuant to this section on such tobacco products.

Section 4. That the code be amended by adding a NEW SECTION to read:

There is hereby created the postsecondary technical institute tuition reduction and workforce training fund to be administered by the Board of Technical Education for the following purposes:

- (1) Lowering the cost of tuition and fees at the postsecondary technical institutes;
- (2) Providing scholarships;
- (3) Providing financial support for critical workforce training and curriculum;
- (4) Providing financial support for new and innovative partnerships between the postsecondary technical institutes and employers that create paid internships and apprenticeships for postsecondary technical institute students; and
- (5) Providing financial support for the expansion of technical training for students in public secondary schools who pursue career opportunities in technical trades;
- (6) Providing funding for maintenance, security and safety of buildings and grounds.

The board may accept and expend for the purposes of this section any funds obtained from appropriations and any other sources. Expenditures from this fund shall be appropriated through the normal budgeting process.